

Date: September 11, 2020

To: City Public Works Directors/Engineers/Clerks
County Engineers
Metropolitan Planning Organizations
Regional Planning Affiliations

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Subject: COVID-19 Impacts on Highway/Road/Street Funding – **September Update**

The September allocation of state Road Use Tax Fund (RUTF) revenue continues the recent trend of being better than estimated. In this September update, we will provide updated monthly RUTF allocation estimates; provide an update on traffic/vehicle sales trends; and update the status of federal funding discussions in Congress.

Regarding the federal funding discussion, September is a critical month because it is the end of the federal fiscal year and Congress will need to take action to keep federal transportation funds flowing. This may be an opportunity to partially address the COVID-19 related funding shortfall.

September Allocation of RUTF

- **Allocation:** The September allocation was estimated to be a relatively high month and you'll see this is true with the September RUTF allocations to cities and counties next week. We estimated the allocation would be about 15 percent higher than the August allocation; however, the actual came out even higher, being about 30 percent higher than August.

While the allocations are higher than we estimated, overall, the RUTF receipts reported this month are about \$3 million lower than we had forecast pre-COVID-19.

- **Reasons:**
 - The primary reason for the higher than normal monthly allocation is because this month is when the unallocated balance of FY 2020 Statutory Allocations Fund is transferred to the RUTF for distribution by formula. Look at the FY 2021 pipeline chart to visualize the Statutory Allocation Fund and how it is allocated by Iowa Code and then the balance at the end of the FY goes to RUTF. (<https://iowadot.gov/about/pdf/Pipeline.pdf>). This is a one-time a year bump in RUTF.
 - Lower allocation due to COVID-19 impact on fuel tax collections and vehicle sales. The September allocation of those revenue streams correspond to collections in July which should not be as low as June but still lower than normal.

October through January Allocations of RUTF

- **Allocation:** Beginning October 2020 until January 2021, we expect relatively stable monthly allocations of RUTF. This is because we're past the annual fluctuations we see due to timing of TIME-21 allocations and the timing we just experienced in September with the one-time per year allocation of Statutory Allocations Fund revenue. However, we still may see fluctuations from month-to-month due to timing of RUTF receipts, primarily related to fuel tax deposits.

We estimate the monthly allocations from October 2020 through January 2021 will be a little lower than the August allocations cities and counties.

Overall Estimated COVID-19 Impacts on RUTF

We have not updated our overall estimate of COVID-19 impacts on RUTF. However, we plan to provide an update with the October report. If the October revenue allocation continues the recent trend, the update will show an improvement to our overall estimate of lost state RUTF revenue due to COVID-19.

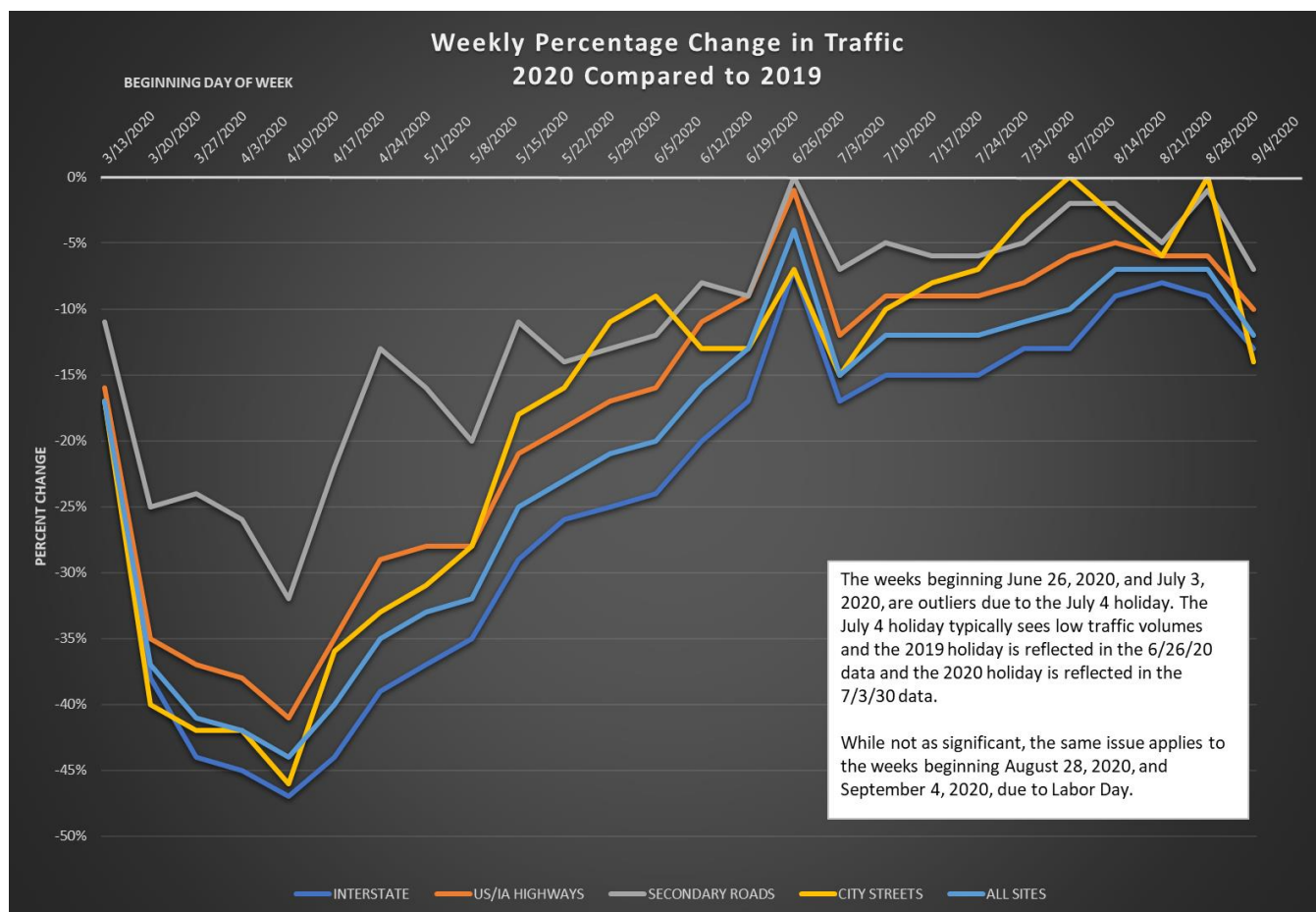
Following is from last month's report:

As we've looked at traffic and vehicle sales trends and analyzed several months of actual RUTF allocations, we've updated our long-term COVID-19 Impacts on RUTF. Our initial estimate was that from June 2020 through October 2020, the reduction in RUTF due to COVID-19 would be approximately \$100 million. Our revised estimate is that there will be a reduction in RUTF of approximately \$50 million. The \$50 million reduction reflects about a 10 percent loss of RUTF over that five-month period. Therefore, you can roughly assume your RUTF/TIME-21 allocations over that five-month period will be 10 percent lower than normal.

For the time period from November 2020 through June 2021, we initially estimated a reduction of about 10 percent. We're now estimating a reduction of approximately eight percent. The reduction may be less than that; however, given the uncertainty of COVID-19 impacts during that time period, we are continuing to be conservative.

Statewide Traffic Trends

On the next page is a chart showing average weekly change in traffic counts at our more than 120 automatic traffic recorders across Iowa compared with the equivalent week in 2019. You'll see the peak drop in traffic was in mid-April and has increased significantly since then. Excluding the timing effects of the July 4th holiday, total traffic had stayed constant at about 15 percent below 2019 levels from mid-June through most of July. However, since the end of July, traffic started to increase again and settled into being at seven percent below 2019 levels for the last several weeks. The last two weeks have again seen a little more variation, but this is primarily due to the timing of the Labor Day holiday between 2019 and 2020.



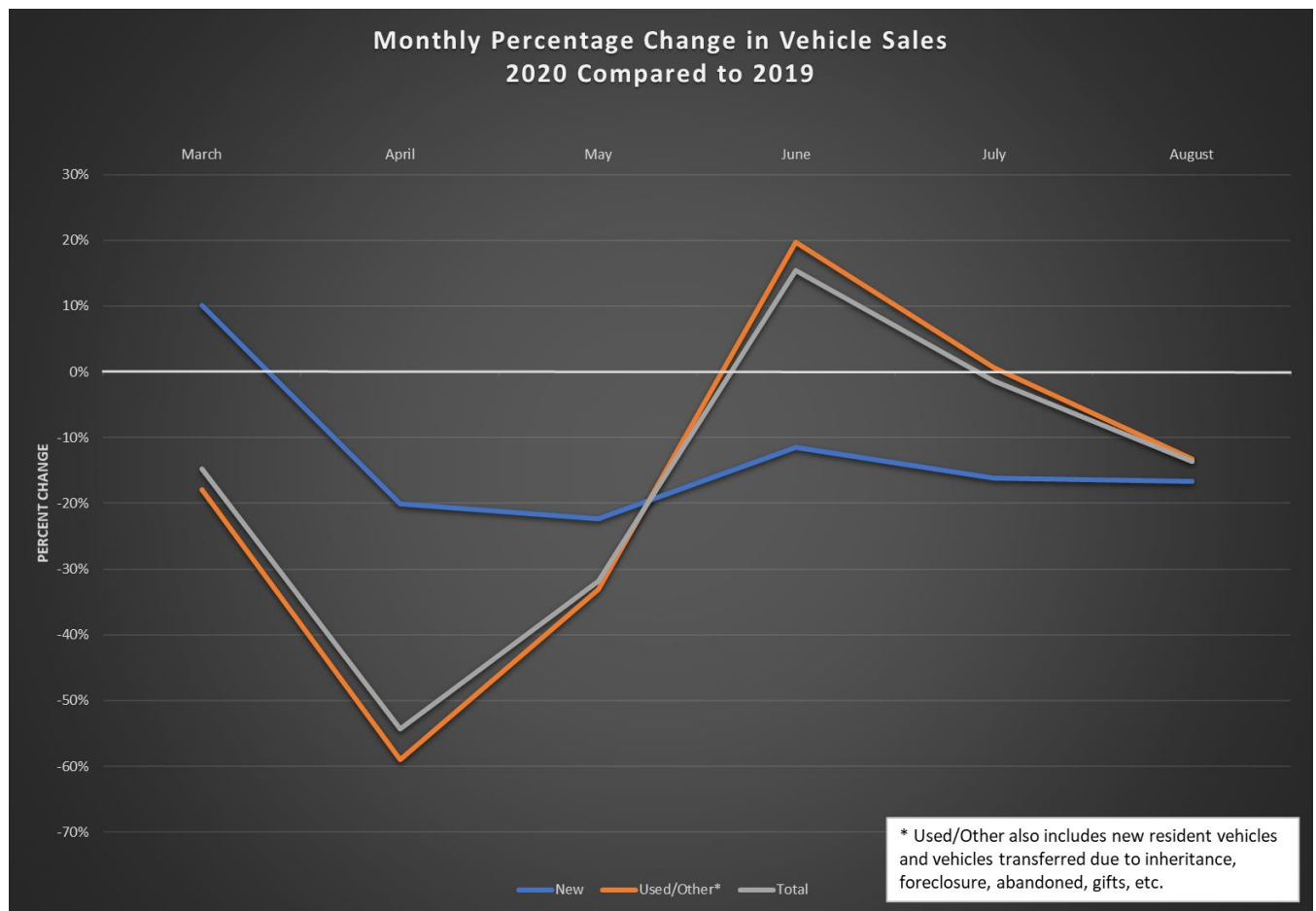
Statewide Vehicle Sales

On the next page is a chart showing the monthly percent change in Iowa vehicle sales compared with the equivalent month in 2019. Please see the footnote that explains the “used/other” category includes other vehicle transfers that don’t necessarily equate to vehicle sales. This likely skews the number to the high end.

Since the July update, we have learned more about the June jump in total vehicle sales. While vehicle sales dropped significantly in April, it’s apparent the April numbers in our chart reflect both a drop in actual vehicle sales but also a slow-down in the processing of vehicle sales transactions during the peak of the pandemic. Therefore, as that backlog was processed, we saw an artificial bump in vehicle sales data show up in June. This was reflected in the much higher than expected Fee for New Registration revenue in the August allocation (based on June collections).

The August numbers appear to have fully reconciled the delayed vehicle sales transaction processing that occurred during the peak of the COVID-19 impacts. However, it’s possible the derecho may have delayed some August transactions. Therefore, we may see the September numbers come in a little higher than expected.

Because of the monthly variations, it’s more meaningful to look at multi-month periods. Total vehicle sales from March through August are still down a little less than 20 percent from those same months in 2019.



Federal Funding

- Reauthorization:** Since the July update, there has been no additional action on reauthorization of the FAST Act which expires September 30, 2020. A signed reauthorization by September 30, 2020, is unlikely and we will instead see an extension. We are encouraged that there is discussion in Congress of passing a one-year extension of the FAST Act. In addition, there are discussions of using this as a mechanism to provide increased funding to provide relief.
- FFY 2021 Appropriation:** The full House passed an FFY 2021 appropriation on July 31. A signed appropriation by September 30, 2020, is unlikely; therefore, we expect a continuing resolution. As discussed in the reauthorization discussion above, it's possible that a continuing resolution may be a tool to provide some additional funding beyond FFY 2020 levels to provide relief.
- Backfill:** Based on recent actions and discussion in Washington, D.C., a dedicated COVID-19 relief bill is unlikely before the November election. Therefore, the best opportunity for additional federal transportation funding is tied to the FAST Act extension and continuing resolution discussions. Those must be resolved by the end of September; therefore, we'll have concrete information to share with you in the October report.

Summary

We now have three months in a row of monthly allocations coming in better than expected. If this continues, we will again update our estimates of COVID-19 impacts on RUTF in the October report. As explained above, we will have a much better picture of where we stand with federal transportation funding by the end of this month.

Please let us know if you have any questions or comments.

State Road Use Tax Fund (including TIME-21)

Funding Sources and COVID-19 Impacts

State Revenue Source	Estimated FY 2020 Revenue (prior to COVID-19 impacts)	Percent of Total State Revenue	COVID-19 Impact on Funding Source	Corresponding Revenue Source Impact
Fuel tax	\$663 million	39 percent	Total traffic in Iowa was down 44 percent in mid-April at its lowest. It has grown each week since then. See our daily traffic report at https://iowadot.gov/maps/Data/AUTOMATIC-TRAFFIC-RECORDER-REPORTS	Significant: Fuel tax revenue changes in direct relationship to in traffic. There is a two-month lag between collections and allocations to jurisdictions. For example, April collections are allocated to jurisdictions in June.
<i>Passenger Vehicles</i>			<i>Almost all of the decrease in traffic has been due to passenger vehicles.</i>	<i>At this time, all fuel tax revenue decreases are due to passenger vehicle traffic reductions.</i>
<i>Trucks</i>			<i>Truck traffic has been relatively stable throughout this pandemic.</i>	<i>Diesel fuel tax revenue will be steady.</i>
Annual vehicle registration fee	\$626 million	36 percent	DOT is allowing late renewals Impact of fewer vehicle sales and potential delayed remittance of fees from counties	This revenue stream is coming in only a couple percent below forecast and we expect that to continue.
Fee for New Registration (5% fee paid when buying a new or used vehicle)	\$346 million	20 percent	Expect dramatic drop in vehicle sales	From March through August, vehicle sales were down a little less than 20 percent compared with 2020 levels.
Other (title fees, driver's license, etc.)	\$87 million	5 percent	DOT is allowing late renewals of DLs. Other fees could be impacted by reduction in vehicle sales	Minor: In terms of overall dollar amount but driver's license renewals are way down
Total	\$1.722 b			